

COMMENT

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# An ageing population is posing problems that Britain cannot ignore

oliver kamm



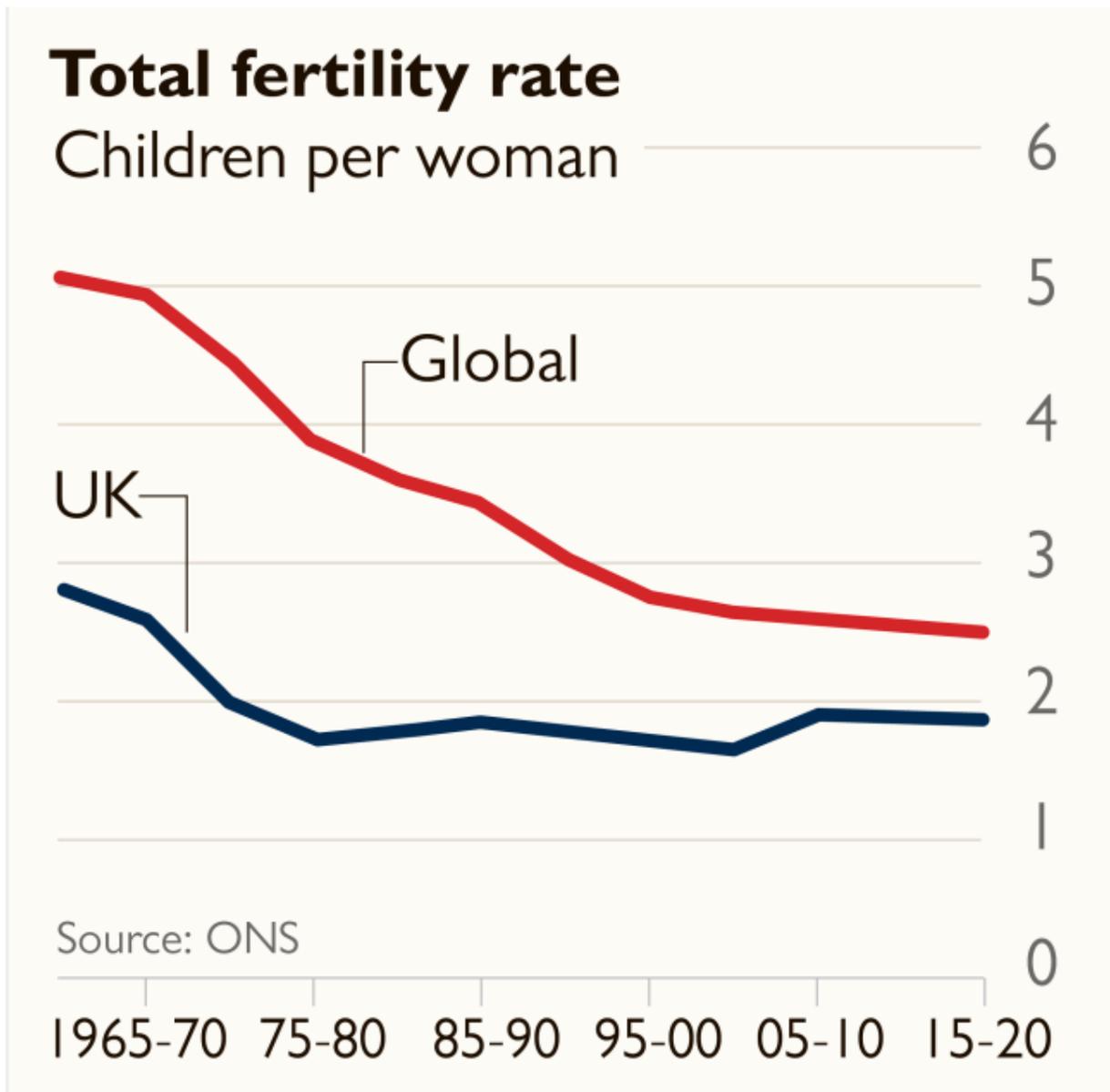
People are living longer. That's excellent news but an economic conundrum, and the state of British political debate barely touches on it.

A report last week from the Office for National Statistics projected that by 2066 a quarter of the UK population would be aged 65 or over. Whereas in 2016 there were 1.6 million people (or 2 per cent of the population) aged 85 or over, by 2066 the number is projected to rise to more than five million (or 7 per cent).

The ageing of society is happening in every region of the world. Both in Britain and globally, it reflects a dramatic fall in mortality rates over the past 50 years and a more variable but still marked decline in fertility rates.

Lower mortality rates, with better public health, have pushed up the figures for average life expectancy. A startling projection is that half of all newborn girls in the UK in 2066 can be expected to live to their 100th birthday.

The implications for the economy are huge. An ageing population means a rise in spending commitments relative to tax revenues. Britain will have to live with this, but it would help if policymakers spoke louder about the trade-offs that will have to be made by workers and taxpayers.



First, there will be a rise in dependency ratios. In 2016, there were 285 people in the UK aged 65 or over for every 1,000 people aged 16 to 64. In future, more pensioners will need to be provided for by people of working age.

Second, while an older population eases public spending pressures on the education system, it also increases demand for health and pensions. Meanwhile, retirees stop earning income from employment so cease to pay tax contributions on it. The share of national income spent on pensions has risen from 2 per cent in 1950 to about 8 per cent in 2016. That proportion, and not only aggregate spending, will have to increase.

There are few options for sustainably coping with these financial pressures. The most obvious are to raise the retirement age to keep rises in the dependency ratio in check, and to increase taxes. The first is being done in stages, such that the British state pension age for both sexes will rise to 68 by 2039. The second is difficult for policymakers to advocate, so convenient myths (such as that taxes can be raised painlessly on the corporate sector) flourish.

Over the longer term, people will have to work on average until much later in their lives to keep pace with increased life expectancy. Taxes on the working age population will increase in some form, thereby intensifying pressures on living standards. There will be shifts in the sectoral composition of the economy, with increased demand for services. Some of this will be highly skilled, such as medical care; some of it will not, such as demand for low-wage care work in residential homes.

At the level of the aggregate economy, there are two worrying implications. First, Britain's poor record on productivity is unlikely to be speedily remedied, given that services sectors, especially in lower-wage occupations, tend to be more labour-intensive. Second, as the proportion of national income devoted to retirement savings increases, investment in the real economy is likely to be under pressure. Pension funds' investment time horizons will narrow, meaning that they will have to increase the liquidity of their holdings and reduce their risk tolerance. Expected investment returns will suffer.

All of this is happening over the longer term, by the way, while Britain is seeking to reduce the number of people who come to Britain to work. It doesn't add up, but somehow it will have to.

*Oliver Kamm is a Times leader writer and columnist. Twitter: [@OliverKamm](https://twitter.com/OliverKamm)*

## **Comments**

### **Martin**

If you live in the Horsham District, West Sussex and are aged 60 or above or care for someone who is, then the Horsham District Older Peoples Forum would like to know your views. Next public meeting 29th August Colgate Village hall, Vicarage Close 10.30am - 1pm. Details of the Forum online

### **Francophile**

"People are living longer. That's excellent news". But are they? According to a report in the BMJ we have now had two consecutive years when life expectancy declined. And there is a potential explanation. Especially since the war our country has been engaged in a systematic assault on our intestinal biome and hence on our appetite control and immunity systems. We have reduced our intake of fresh vegetables, become obsessed with food hygiene, overused antibiotics, decreased breastfeeding and increased use of cesarean births. If we want a healthier population - working longer, taking less time off, and needing less care - should we not address those trends, rather than focussing on medical and social responses to the epidemic of chronic illnesses they have caused?

### **Peter Barnard**

While it is pertinent to draw attention to the (forecast) changing demography over the next few decades, concentrating on pensioners tells only part of the story. There are economic dependents at the other end of the age band, ie children, and the base figure to start with is the forecast working-age population over time. It is the working-age population that support the economic dependents, after all.

At present (2018), 62.5% of the population is working-age. This is forecast to increase to 63.1% in 2020 (due to the changes in retirement age for women), be 62.5% in 2030, 60.4% in 2040, 60.5% in 2050, and gradually declining to 57.7% by 2100. Of course, the further out we look, the less dependable the accuracy. For an example of this, in 1970 the Government Actuary was forecasting a UK population of 66.5 million in 2001... only 7.4 million out. However, in 1979, the GA was forecasting a UK population of 58.4 million in 2001 (much better – the actual population was 59.1 million).

Of course, those at the opposite ends of the age-range have different demands on public services, and these different demands have to be factored in to national obligations and expectations.

A key fact to consider is that between 1979 and 1997, the number of children decreased by 0.45% pa, and the working-age population increased at 0.38% pa. Those were the days before “mass immigration. When the number of children decline by 0.45% pa, it isn’t possible to increase the working-age population proportion in subsequent generations. The actual figures are 1979 : children = 13.0 million, 1997 : children = 12.0 million.

But, that’s not all. There was a precipitous decline in the number of under-16s between 1974 and 1979, from 14.17 million, to 13.03 million, so that the under-16 population (the next generation of wage-earners, remember) declined at a rate of 0.66% pa between 1974 and 1979.

In the meantime, the number of pensioners increased from 11.0 million to 12.6 million between 1997 and 2010 : 1.0% pa, and total economic dependents from 23 million (rounded), to 24.4 million (rounded) : 0.44% pa. The demands of pensioners, by number, have been put on hold for the years 2010-2020, as the state pension age for women rises from 60 to 65, but the crunch starts again in 2028, when the (peak) mid-1960s born start to attain pension age. Between 2028 and 2050, the number of pensioners is forecast to rise from 13 million to 16.4 million (both figures rounded) = 1.04% pa, and all economic dependents by 0.59% pa.

It is more difficult to provide for these economic dependents on an increase in the working-age population of just 0.38% pa, such as we saw between 1979 and 1997. Normally, as is mentioned in the article, increases in productivity can come to our aid. However, the experience of the last ten years seems to be one of evaporating productivity increases, and the failure of so-called baby-boomers to procreate enough children to look after them in their old age is coming home to roost.

This failure has been exacerbated by ever-increasing mobility of labour in the post-war years. In years gone by, the person who left his (her) district to seek work elsewhere was something of a rarity, and that person could provide assistance to their parents because they lived ‘just round the corner.’ Elderly parents no longer live ‘just round the corner,’ and the children may well be a hundred (if not hundreds of) miles away, so that care has to be provided by the public sector, or in care-homes. It doesn’t help, economically and fiscally, that

the elderly parents are living longer. In 1951, the remaining life-expectancy of a 65 year-old male was 11.7 years, and for a female, 14.3 years. Nowadays, it's 18.5 years (males), and 20.9 years (females).

You are right, Mr Kamm. Something doesn't add up. It may well be unpalatable for some people that (i) in the absence of good gains in productivity, and (ii) the determination of the present generation of home-owners to give up a good chunk of the unearned capital gain in house prices, then indeed we shall have to continue to import labour.

### **Mockett**

What also doesn't add up is how a requirement for an ever-increasing population through the importation of labour is compatible with the current legal requirement to reduce carbon emissions by 80% by 2050 .

### **Peter Barnard**

Mockett

Off-topic. I'm addressing the changing demographic structure, not environmental issues. If your policy decision is to curtail the import of labour, then there will be severe shortages of resources to take care of the additional four million pensioners between now and 2050.

### **Tim Locke**

Mockett

Change that to require a number of max carbon emissions per person.

### **Mockett**

Mr Kamm somewhat disingenuously refers in his final paragraph to people coming to Britain "to work" when he must know that most net migration is for the purpose of settlement which will involve, in time, the bringing in of "dependent" (ie elderly) relatives. It would be interesting to know the average age of those coming to settle here - I'm sure it wouldn't be 18 or 20. As someone else wrote earlier our immigration system is a form of Ponzi scheme whereby successive waves of migrants must be replaced with new waves as each wave ages. This is utterly unsustainable.

## **Confused**

Mockett

I didn't know that. Perhaps Mr Kamm is simply as ignorant as I am, rather than disingenous.

## **Mockett**

Confused

The clue lies in the statistics themselves which refer to Long-Term International Migration - ie settlement. Short-term migration is treated separately. It doesn't really require much effort to inform oneself of this.

## **Mike Harrison**

I am 50. If I sell my house and invest the money well, I can retire today, go on holidays, get a dog, read books. All I have to do to make this happen is kill myself on my 75th birthday.

## **Germann Arlington**

Mike Harrison

You can invest a little better (6% instead of 5%) and give yourself an extra 5 years...

## **Janet Brown**

I thought the government's plan to stop pensioners living longer, by starving The NHS of money was working . The U.K. figures are already in reverse , but relatives will have a slightly shorter train journey in certain areas , so I'm sure that will be a great comfort.

## **Alison Young**

Importing young foreigners is a ponzi scheme , a foolish short term solution. There is no logical reason why a constantly increasing population is sustainable. It isnt. They is an optimum population and I am sure we have exceeded it already.

## **Nick Tilley**

This entire article while pointing out a long known truth, entirely misses the elephant in the room, traditional, long term, full time employment is disappearing from the western industrialised world at an ever increasing rate as IT and robotics take over ever more mundane repetitive roles, leaving creative, interpersonal and judgement skilled jobs for the diminishing workforce to do. You cannot rely on them to provide the tax revenue to support a Country, you need an effective way to generate tax from the organisations profiting from the robots and IT.

## **Colin Gamble**

Because this can has ben kicked down the road by successive governments for the last 30 years the solutions are few. The only one that is left is to make those who accumulate wealth when they reach 70 years of age to pay for the social care of those who have spent it all and have nothing to live on. Apparently, however, nine out of ten people have saved no money to pay for social care and all the wealth is in property and other assets. Inheritance Tax ?

## **Brendan**

Colin Gamble

Capital gains taxes on the primary residence? Inheritance tax whoever the beneficiary is? Income tax on all income, US-style, including gambling wins? Council tax on the current value, uncapped?

## **Colin Gamble**

Brendan

Changes to VAT. All the things that are good for your health are VAT zero rated whilst anything that is fattening or a luxury such as cruises need to be higher rated for VAT. Impose a delivery charge tax on all on-line purchases based on the packet per mile delivered.

## **Brendan**

Colin Gamble

"Impose a delivery charge tax on all on-line purchases based on the packet per mile delivered." How about a similar tax on the delivery miles of everything in every shop from the Isles of Scilly to Shetland?

## **Tim Lock**

Brendan

Probably need to count inflation in the CGT of houses that would be fair. A sumptuary rate of VAT maybe 30% plus on 5 star hotels rooms, cruises, 1st class flights, cars over 100,000 pounds etc. And reduce VAT a bit on other stuff. Perhaps a 2-3% rate on food and rents as well with that money going into some benefits.

## **HRichards**

Colin Gamble

I quite like the Spanish scheme. When you sell up, they tax any profit you make. This profit takes into account all receipted bills for home improvements. The logic is that all the rest of the profit is made simply by residing in Spain and from no major personal effort.

## **Andrew Moore**

There's nothing new in the projections, which could be found in UK and US actuarial figures 10 or more years ago. - And, yes, we need to encourage older folk to work longer. What we do NOT want to do is to discourage them, and the current pension limits are not helping, especially with the punitive taxes of relatively modest pots of around £1 million or so. - These encourage public service workers in particular to retire early, as with GPs and hospital consultants. But across the board it gets harder to plan for a retirement in which one provides for oneself, rather than rely on the state (god forbid). - Old age is a long-term plan for many of us, and short-term 'fixes' are unhelpful.

## **HRichards**

Andrew Moore

I wonder how many people aspire to a "modest" pension pot of around £1 million.

## **Andrew Moore**

HRichards

Well, almost all GPs and hospital consultants, swathes of people on higher salaries in the public sector, a large proportion the the city, and many in private companies. Don't forget that today a £1 million pension pot only provides about £20,000 a year if it is to keep its value. - And the people aspiring to this level of pension are also the ones who pay around 40% or more of income tax, most stamp duty, etc. Their 'prize' is a whopping 55% on what they take above the threshold. - Better to retire early and have more time. Increasingly time is valued more than money, and it's not that hard to see why. - Keep punishing high earners and you end up with no high earners. And not much tax - a catastrophe for public services. Read some of the rest of this paper to see where that get you.

## **Charlotte Seager STAFF**

We want to hear what our readers think about this issue: how do you solve the problem of an ageing population? What do you think about raising the retirement age, or increasing taxes to fund healthcare and pensions?

## **Cormac Friel**

Charlotte Seager

Broadly speaking, those who have retired already are happy to raise the retirement age and increase income taxes while those that have yet to retire aren't so happy. No idea why

## **Alison Young**

Charlotte Seager

Pay for your own care if you can afford it and make sure people don't give away their assets in order to avoid paying.

## **Simon Andrews**

Charlotte Seager

Charlotte, are you asking people to tell you what they reckon?

<https://www.youtube.com/watch?v=OQnd5ilKx2Y>



## **Jeremy Shearmur**

Two comments about this. First, we need to get a properly designed system for social care, which gives people an incentive to save rather than to spend. One contribution (once the first part of this was fixed) would be to put estate tax into the same kind of system as income tax, with only the most modest of tax-free areas, but without a cliff-edge 40%. Second, we need to get pensions provision onto a sensible basis, with pooled, inter-generational funds which (as

with superannuation in Australia) can be invested across the board, rather than being held in cash or near-cash.

**Mr John Bridger**

"retirees stop earning income from employment so cease to pay tax contributions on it" Really? Who knew? There was I thinking that we all continued paying tax on our sources of income whether from employment or pensions. For the record, retirees now pay more tax than previously since Osborne equalised personal allowances.

**Andrew Raiment**

Oliver Kamm could have written an a piece on how we came to be in this position in the first place. That of course would be an admission that the current economic model is completely broken, so we get the same tired article over and over again. It's just as much a failed political ideology as an economic one but as with all ideologies, it's difficult to let go of them.

**Robert Holmes**

I am still waiting for my free suicide pack available from the council for only £50

**Ian Bignell**

The NHS will deal with the problem of an aging population quite efficiently. Indeed, by its very nature it is the best solution for an increasing older population!

**Chris Rodda**

Demand for spectacles, nappies for the incontinent, gentle sit-coms, tartan rugs and Honda Civics will all soar. Jobs will be created, older people will offer their skills on a part-time basis and all will be well. How wonderful free-markets are.

**Robert Holmes**

Chris Rodda

And the national trust will have a lot of elderly white people waiting to greet visitors.

## **Brendan**

Robert Holmes

Only if they are prepared to wear a rainbow t-shirt with name-tag on a rainbow lanyard.

## **Leni**

I did hear a very good programme on R4 about work and life. It recommended that people should have their first career until fifty or so, with an arc of good pay. Then they should contemplate retraining to work in something less tiring and more flexible, enabling a longer working life. I listened with great interest as it reflected what I have done. Until fifty I worked for the NHS, but retrained and am now self employed (ie I manage my own diary and workload, and hope to do this for years to come). In all the writing about this subject, what is not mentioned is that for many, carrying on with their current job until later age will be impossible. They will get tired, or joints will wear out. I could not manage now a frenetic health visitor inner city caseload. It is this aspect that people must prepare for, and the twelve year olds who work in government need to take account of.

## **Andy**

Leni

Yep. People have choices nowadays and don't work for the same company doing the same jobs all their lives until they retire. You can have multiple careers.

## **Tony Perryman**

Leni

I agree, however not everyone can make the same transition as you. My life changed in my mid fifties when I lost my job as a senior executive in a large business and did not want to uproot. So, I started my own business and am still working in my late sixties. This is not possible for everyone for the physical reasons you explain. However it is possible to retrain people to give them an extended worthwhile career. This however requires creative schemes, which are focused on the economic needs of the country.

## **Haddaway**

A wonderful Ponzi scheme

## **Jim McGarrey**

Hey, I know, let's stop immigration via Brexit; with an ageing population, we don't need healthy, young, tax paying immigrants!

## **JPV**

Jim McGarrey

Perhaps their own countries might need them?

## **Jim McGarrey**

JPV

You make a good point; however my point was that we should not actively discourage immigration via Brexit.

## **Mr John Bridger**

Jim McGarrey

I think you will find that the latest statistics say that retirees pay more tax per head than the young.

Not to mention the increased health costs of an aging population, which multiplies. Massive problem everywhere

## **Andy**

Importing more people to work doesn't solved the issue because these people also get older and retire too, which only exacerbated the problem. People are living longer so will need to work longer.

## **Steve Clancy**

Andy

Working in the tech industry you see few people over mid-50s. Partially this is the result of the speed of technology change - and sorry if people tell you that

you have to welcome and embrace the change they are not really facing reality. Kids coming out of college have a huge advantage over someone having to play keep up at the same time as doing an 8 - 10 hour day. The best chance you have is to find a niche where your knowledge and experience give you the edge (mainframes for example). More of a challenge is that older staff usually cost more to employ. So employees see younger staff capable of the same job (so mid-30s vs mid-50s) as a better proposition. Finally there is a basic prejudice once you reach over 60. Everyone, employers and employees need a very large cultural shift to make an aging workforce a reality.

## **Andy**

Steve Clancy

I'm not sure if you meant to reply to my comment as I didn't mention technology... I'll add my two cents to your comment as I work in the tech industry and have done for over ten years. I am seeing far more older people in the industry because the industry is getting maturer, and this will continue. It's true that older people will cost more because they have greater experience. This is the same in most industries. I'm in software development and I'm finding companies want to hire experienced people - and don't mind paying for it. In fact, the majority of roles I see advertised want senior people - companies don't want to hire juniors that they can train.

## **Come and Go**

Steve Clancy

"Partially this is the result of the speed of technology change " The speed of tech change will decrease as the proportion of oldies increases. Think of the army of over-80s that don't (yet) have a smartphone or don't do their banking online (or both), to give just one example. And even if the younger generations compensate (by readily adopting new tech), organizations will have to maintain multiple infrastructures - at tremendous cost - in order to serve their complete customer base.

## **Andy**

Come and Go

I disagree with the statement: "The speed of tech change will decrease as the proportion of oldies increases. ". People are much more tech-savy nowadays.

People in their 60s & 70s are using smart phones for web browsing and apps. These same people will continue to use computers and gadgets as they're part of their lives.

### **Come and Go**

Andy

Ask yourself: of the folks that you know, is it the younger ones that are more likely to be without smartphones and insist on paper bank statements? Or is it the older ones? The folks in their 60s and 70s that are using smart tech learned it in their 50s and 60s. And as they get into their 80s they will tend to stick with the level of tech that they know and love. As a general rule, you can't teach an old dog new tricks. But you are welcome to try! So an increasing proportion of octogenarians in the population will tend to slow down the rate of change (note: slow, not stop)

### **Andy**

Andy

^ exacerbates, not exacerbated.

### **Tony Perryman**

Andy

It's ok we got what you meant

### **Tony Perryman**

Andy

Your proposed solution doesn't completely solve the problem of dependency ratio either, because there comes a point where the imbalance is such that asking to people to work longer isn't practical. Once solution is to increase the fertility rate, another is investing in technology, but you cannot escape from the need to have sufficient people working to support those that aren't. I am in my late sixties and still working in an area that requires me to keep up to date and needs a high level of competence, it's not physical work, I know if my work was physical I couldn't do it despite being reasonably fit. The question is how do we practically square the circle without a degree of immigration.

## **Andy**

Tony Perryman

I didn't mean to suggest it completely solves the issue. I'm just suggesting that increasing the population - through immigration or increased birthrates doesn't either. Technology advancements will definitely help.